FERC Rejects PJM on Capacity
Questions to Answer regarding CP, Stop-Gap Denied

PJM Can’t Be Pleased, But Questions Should Be Answered Quickly
FERC issued a deficiency notice to PJM yesterday regarding PJM tariff amendments that create the Capacity Performance product in the upcoming PJM auctions. FERC also rejected PJM’s stop-gap measure designed to safeguard PJM in the event the Supreme Court does not review EPSA vs FERC. We think the questions FERC sent PJM to answer are fairly straightforward and only designed to align neighboring ISO’s capacity auction incentives. While there is plenty of time to answer FERC’s questions before the PJM base capacity auction, it will be difficult to get FERC approval before the incremental auctions. Therefore we expect that Capacity Performance will still be implemented PJM base residual auction, but time constraints limit chances in the incremental auctions that take place in April and early May for delivery years 2016-17 and 2017-18. PJM’s Capacity Performance product as proposed to FERC would phase in performance penalties by procure 60% of total capacity as CP in 2016-17, 70% in 2017-18 and 80% in 2018-19. PJM has also stated that a delay in the auction process is a possibility which given the importance of this proposal, we think a delay may be the best option. We believe PJM will be able to receive FERC approval for Capacity Performance before the PJM BRA, delay or no delay.

FERC Rejects PJM Stop-Gap Proposal
PJM’s stop-gap proposal is designed to be automatically implemented in the event the Supreme Court does not review EPSA vs. FERC before the PJM base residual auction in May. FERC’s rejection (FERC Docket No. ER15-852-000) of the stop-gap proposal ensures that Demand Response will not be able to bid in the capacity auction as a supply or demand (WLR) resource in the event the Supreme Court denies certiorari before the May auction. FERC rejected the proposals on the grounds that it is "premature" as it would limit the commission’s options if the Supreme Court does not review EPSA vs. FERC. This does set up a precarious situation for PJM as demand response "stepping-out" of the capacity auction would almost ensure that the BRA would clear at the offer cap in order to replace 10 GW of DR in short order.
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